

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 7482

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 7349

E.O. 11652: GDS

TAGS: EFIN, EC

SUBJ: GOE RESCINDS RESTRICTIONS ON FOREIGN INVESTMENT IN BANKING,
INSURANCE AND FINANCE COMPANIES

REF: QUITO A-3

1. MINISTER OF INDUSTRIES, COMMERCE AND INTEGRATION (ICI),
DANILO CARRERA, ANNOUNCED OCTOBER 1 THAT FOREIGN BANKS,
INSURANCE COMPANIES AND FINANCE COMPANIES WILL BE ALLOWED TO
INCREASE CAPITALIZATION BY REINVESTMENT OF RETAINED EARNINGS.
EXISTING BANKS WILL BE ALLOWED TO INCREASE CAPITALIZATION
PROVIDED THE PERCENTAGE OF DIRECT FOREIGN INVESTMENT REMAINS
THE SAME. THE AUTHORIZATION WILL NOT BE GRANTED TO NEW BANKS
OR INSURANCE COMPANIES, I.E., ESTABLISHMENT OF NEW FOREIGN
BANK BRANCHES OR INSURANCE COMPANIES IS STILL PROHIBITED.

2. THIS RESOLUTION OF THE MINISTRY OF ICI PARTIALLY REVOKES
THE DECREE ISSUED LAST JANUARY BY THE FOREIGN COMMERCE
SUPERIOR COUNCIL WHICH PROHIBITED FURTHER FOREIGN INVESTMENT
IN BANKING AND OTHER FINANCIAL INSTITUTIONS, CONSTRUCTION
AND RETAILING (REFTEL). THE NEW RESOLUTION IS THE FIRST
SUBSTANTIVE REVISION OF THE FOREIGN INVESTMENT LAW,
FOLLOWING UP MINISTER CARRERA'S REPEATED PROMISES TO
INCREASE THE LEVEL OF FOREIGN INVESTMENT. ARTICLES 40-43

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OF DECISION 24 OF THE ANDEAN FOREIGN INVESTMENT CODE

PROHIBIT FOREIGN INVESTMENT IN FINANCIAL INSTITUTIONS AND
RETAILING; IN 1971 ECUADOR HAD AVAILED ITSELF OF THE WAIVER
OF THESE PROVISIONS AS PERMITTED BY ARTICLE 44, BUT LAST
JANUARY'S DECREE REVOKED THIS WAIVER. JANUARY DECREE HAD
STATED THAT IMPLEMENTING REGULATIONS WOULD BE ISSUED "SOON",
BUT REGULATIONS WERE NEVER ISSUED. MEANWHILE, RETAINED EARN-
INGS WERE ACCUMULATING IN FOREIGN BANKS WHILE BANKERS
AWAITED SOME GOVERNMENT REGULATIONS. LOCAL AMERICAN
MANAGER OF FIRST NATIONAL CITY BANK TOLD ECONOMIC COUNSELOR
THAT, WHEN THE MANAGER CALLED ON MINISTER CARRERA SOME WEEKS
AGO TO DISCUSS THE PROBLEM OF THE ACCUMULATED EARNINGS,
CARRERA TOLD HIM THE JANUARY DECREE HAD BEEN "A MISTAKE"
AND THAT IT WOULD PROMPTLY BE RECTIFIED, WHICH HAS NOW
BEEN DONE. (EMBASSY COMMENT: PERHAPS NOT COINCIDENTALLY,
GOE HAS APPLIED TO FNCB FOR A SUBSTANTIAL LOAN, WHICH THE
BANK HAS SUBMITTED TO HEADQUARTERS IN NEW YORK FOR
APPROVAL.
BREWSTER

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